New Farmers and Ranchers

Farmers over the age of 65 years outnumber those below the age of 35 by more than two to one. A majority of farmland and farm business assets are owned by individuals over the age of 65. Over the next two decades, an estimated 400 million acres of agricultural land will be transferred to new owners and will either remain in production or be converted to non-agricultural uses.

There is an emerging generation of farmers who are best identified by the diversity they represent. Unlike previous generations of farmers who primarily came from multi-generation farm families, this new generation includes college educated young people who have chosen farming as their first career, Hispanic, Somali, Hmong, and Eastern European families, including immigrants, former farm workers, and people from non-farming backgrounds who have worked for years as professionals in other careers. They are both men and women in about equal numbers. This new generation of farmers also includes established farmers who are looking for ways to transition their current farming system into more sustainable and profitable systems. This more diverse new generation of farmers has very different needs than previous generations. Current farm policy is clearly deficient when measured by its ability to foster this new generation of farmers and needs to be changed. The future health and vitality of agriculture, the food system and rural communities will depend on public policies that encourage this new generation to work in agriculture and manage land sustainably.

For people getting started in farming and ranching, the challenges to farm entry and success include the high cost of land and difficulties obtaining credit and insurance, especially for diversified and more sustainable farm operations. Furthermore, given the non-traditional background of some of these emerging farmers there is a critical shortage of training and on-farm mentoring opportunities. Consequently, it is very difficult for them to obtain critical management, marketing and communications skills necessary for success in entrepreneurial agriculture.

Immigrant and refugee farmers—the fastest growing group of people among this new generation of farmers in the United States—face special difficulties and cultural barriers, including understanding how to buy or lease land, how to obtain basic farming resources, and how to access public and private agricultural services and programs. Public policy can and should help strengthen the capacity of immigrants to farm successfully, helping to increase new farming start-ups and to advance a more sustainable farming and food system.

As new local, regional and national markets develop for products raised with strong environmental and humane standards on small and moderate-sized family farms, some farmers and ranchers are transitioning from conventional production, forgoing the attempt to compete with low-cost, high volume commodity producers and instead employing new sustainable production and marketing systems aimed at these emerging and growing markets. Addressing the special needs of these "re-beginning" producers is also a critical component to any strategy that attempts to revitalize the family farm system of agriculture.

To ensure the future vitality of US farming, older farmers also need assistance with farm business succession and retirement planning are looking for ways to share their knowledge and experience with this new generation of farmers and ranchers.

The 2007 Farm Bill should include a major, cross-cutting initiative that addresses in a comprehensive fashion the needs of a new generation of beginning farmers and ranchers. The "New Farmer" initiative should provide beginning farmers and ranchers with tools they need to successfully enter farming or ranching and to be good stewards, innovative and entrepreneurial, and better able to respond to the rapidly changing demands of the marketplace.

1. Beginning Farmer and Rancher Development Program

ISSUE

The Beginning Farmer and Rancher Development Program (BFRDP), authorized in Section 7405 of the 2002 Farm Bill, is the first USDA program other than farm credit/debt financing programs targeted specifically to beginning farmers and ranchers. This competitive grants program, to be administered by USDA's Cooperative State Education and Extension Service (CSREES), will fund education, extension, outreach and technical assistance initiatives directed at new farming opportunities.

The BFRDP is targeted especially to collaborative local, state, and regionally based networks and partnerships to support financial and entrepreneurial training, mentoring and apprenticeship programs, "land link" programs, innovative farm transfer and transition practices, and education and outreach activities to assist beginning farmers and ranchers. Such networks and partnerships may include cooperative extension, community-based non-governmental organizations, relevant USDA and state agencies, universities, community colleges and other appropriate partners. Not less than 25% of funds appropriated for this program are targeted to limited resource and socially disadvantaged beginning farmers and ranchers and to farm workers seeking to become farmers or ranchers. There is a 25% cash or in-kind matching requirement. Grant terms may not exceed three years.

The program also establishes education teams, made up of representatives of colleges and universities, cooperative extension, non-governmental organizations, and agencies, whose task is to develop curriculum and educational modules geared to different regions and farming systems for use in a variety of educational settings and available online from USDA. The curriculum and educational modules could include segments on new markets, new crops, and value-adding enterprises.

In the Senate-passed version of the last farm bill, $15 million a year in mandatory funds was set aside for the BFRDP, but that funding was unfortunately removed during final conference committee consideration. To date no discretionary funding has been requested by the Administration or provided by Congress during the annual appropriations process, and so this potentially valuable program remains on the books but unfunded.

PROPOSAL

As part of the 2007 Farm Bill's New Farm Initiative, the Beginning Farmer and Rancher Development Program should be reauthorized and granted at least $20 million a year in annual mandatory farm bill funding. Funding for the curriculum development teams should be capped at no greater than 20 percent of the total funding. These teams should include an emphasis on financial literacy and preparing beginning farmers to access credit. Language should be added to ensure regional balance in the allocation of funding. Priority should be given to partnerships and collaborations that include non-governmental and community-based organizations with expertise in new farmer training and outreach. Refugee and immigrant farmers should be specifically included in the list of eligible groups eligible for the 25 percent funding set-aside. A new section on grant evaluation criteria should be added and include a focus on the relevancy, technical merit, expertise and track record of the principal partners, participatory evaluation, outcome-based reporting, and plans for communicating findings and results beyond the immediate target audience.

2. Individual Development Accounts (IDA) for a New Generation of Farmers and Ranchers

ISSUE

The first Individual Development Account (IDA) program specifically targeted to beginning farmers is currently underway in California. This Beginning Farmer and Rancher IDA uses special matched savings accounts to promote a new generation of farmers and ranchers by assisting those of modest means to establish a pattern of savings. The account proceeds may be used toward capital expenditures for a farm or ranch operation, including expenses associated with purchases of land, buildings, equipment, infrastructure, or livestock, or toward acquisition of training. The Beginning Farmer and Rancher IDA program is patterned after the more urban-influenced IDA programs sponsored by the Department of Health and Human Services which are targeted at home buying or business development.

PROPOSAL

The 2007 Farm Bill should institute a Beginning Farmer and Rancher Individual Development Account pilot program. The program would be administered through the Farm Services Agency and include at least 15 state pilot programs with authority for each to enroll up to 25 participants. The program would provide up to $10,000 per year for each account and be contingent on a local match of 20 percent. Up to 20 percent of the funds provided would be for implementation, outreach, and financial literacy training. The Farm Bill should provide $4.5 million per year for 5 years for the IDA pilot program. The program would include an annual and a 5-year evaluation process.

3. Beginning Farmer and Rancher Down Payment Loan Program

ISSUE

The Down Payment Loan Program was established by the 1992 Agricultural Credit Act and implemented by USDA beginning in 1994. This special loan program reflects the dual realities of increasingly scarce federal resources and the significant cash flow requirements of most new farm operations. It combines the resources of the Farm Service Agency, the beginning farmer, and a commercial lender or private seller. Because the government's share of the total loan cannot exceed 40 percent of the price, limited federal dollars can be spread to more beginning farmers.

For direct farm ownership (real estate) loans, 70 percent of total appropriated funds are targeted to beginning farmers and ranchers. In turn, sixty percent of these funds are currently targeted to the down payment loan program until April 1 of each year. Unused guaranteed operating loan funds can also be transferred to fund approved down payment loans beginning August 1 of each year.

Under the program, FSA provides a down payment loan to the beginning farmer of up to 40% of the farm's purchase price or appraised value, whichever is less. This loan is repaid in equal installments for up to 15 years, at a 4% interest rate, and is secured by a second mortgage on the land.

The beginning farmer must provide an additional 10% of the purchase price in cash as a down payment. The total purchase price or appraised value, whichever is less, currently cannot exceed $250,000. The remaining 50% of the purchase price must be financed by a commercial lender or a private seller on contract. This financing may use assistance from a state beginning farmer program, which can frequently provide lower interest rates and longer repayment terms than other loans from commercial lenders. The loan or contract must be amortized over a 30-year period but can include a balloon payment due anytime after the first 15 years of the note.

A commercial loan (for either farm ownership or operation) made to a borrower using the Down Payment Loan Program may be guaranteed by the FSA up to 95% (compared to the regular 90%) of any loss, unless it has been made with tax-exempt bonds through a state beginning farmer program.

Throughout the 1990s this program was quite successful in creating new farming starts, though loan making activity has slowed in recent years as interest rates have remained fairly low. From its inception to midway through the 2006 fiscal year, the Down Payment Loan Program has made loans to help 2,728 new farmers purchase their first land, for a loan volume of $124 million.

In the 2002 Farm Bill, Congress, on the advice of the USDA Beginning Farmer and Rancher Advisory Committee, increased the USDA share of these partnership loans from 30 to 40% and increased the length of the government loan period from 10 years to 15 years.

The last farm bill did not enact the additional proposed reform of reducing the FSA interest rate for Down Payment loans from the current 4% to a floating rate set at a fixed percentage under the regular FSA loan rate (e.g., 4% under regular direct farm ownership rates). In the recent run of low interest rate years, the Down Payment Loan Program differential has been too small to make much difference and therefore has reduced the attractiveness of the partnership approach. As a result, the vast majority of direct loans have returned to the traditional 100 percent government financing approach or to 50/50 partnership loans between FSA and banks.

PROPOSAL

The 2007 Farm Bill should make several adjustments to the Down Payment Loan Program, including, most importantly, setting the interest rate at 4 percent below the regular direct farm ownership interest rates or at one percent, whichever is greater. In addition, the maximum allowable farm sales price should be (a) changed to maximum allowable portion of farm sales price eligible for the down payment loan, and (b) increased from $250,000 to $400,000 to reflect market realities. Consideration should also be given to creating a 5 percent down option in addition to the current 10 percent down.

The Farm Bill should also direct FSA to utilize the down payment program or the 50/50 joint financing participation loans as the first choice option for real estate loans in all regions of the country. To provide FSA with greater flexibility to respond to fluctuating demand, the funding set-aside for Down Payment loans should be combined with joint financing 50/50 partnership loans. Currently, at least 70 percent of total direct farm ownership loan funds are reserved for beginning farmers and ranchers, and 60 percent of that 70 percent is reserved for Down Payment loans. We propose the 70 percent target continue, but with at least 70 percent of that total (i.e., roughly half of total DFO loan funds) in turn reserved for the combination of Down Payment loans and joint financing 50/50 partnership loans, through April 1 of each fiscal year.

4. Loan Fund Set-asides and Inventory Land Sales Preferences

ISSUE

The 1990 and 1996 Farm Bills and the 1992 Agricultural Credit Act introduced a number of loan fund set-asides and preferences for beginning farmers and ranchers. For instance, 70 percent of all direct farm ownership loan funds appropriated by Congress each year are designated for beginning farmers and ranchers, with 60 percent of that total designated for Beginning Farmer and Rancher Down Payment loans. For direct operating loans, the set-aside is 35 percent. Guaranteed ownership and operating loan funds targets are 25 percent and 40 percent, respectively. Each of these loan set-asides are released for other types of borrowers at set times during the year if the demand from beginning farmers and ranchers does not fully subscribe the money. Guaranteed operating loan funds that are unused toward the end of each fiscal year are transferred to beginning farmer and rancher down payment and other real estate loans.

With respect to property obtained by USDA via foreclosure, the Farm Service Agency advertises acquired farm property within 15 days of acquisition. Eligible beginning farmers and ranchers are given first priority to purchase these properties at the appraised market value for the first 135 days after acquisition. If more than one eligible beginning farmer or rancher offers to purchase the property, the buyer is chosen randomly.

PROPOSAL

The existing statutory loan fund set-asides and inventory preferences should be continued in the 2007 Farm Bill, but with one modification. To provide FSA with greater flexibility to respond to fluctuating demand, the funding set-aside for down payment loans should be combined with joint financing 50/50 partnership loans. As now, at least 70 percent of total direct farm ownership loan funds are reserved for beginning farmers and ranchers, but at least 70 percent of that total (i.e., roughly half of total DFO loan funds) should in turn reserved for the combination of down payment loans and joint financing loans through April 1 of each fiscal year.

5. Beginning Farmer Land Contract Program

ISSUE

The 2002 Farm Bill established a Beginning Farmer Land Contract pilot program to allow USDA to provide loan guarantees to sellers who self-finance the sale of land to beginning farmers and ranchers. The pilot program is currently operating in PA, WI, IA, IN, ND, MN, NE, OR, and CA. In each state, up to five private contract land sales between a retiring and beginning farmer may be guaranteed under the terms of the pilot project.

The program is structured to provide the seller of the land a “prompt payment” guarantee.
The guarantee would cover two amortized annual installments or an amount equaling two amortized annual installments. The guarantee also covers the amount of two years of taxes and insurance. The guarantee stays in effect for 10 years.

The buyer of a farm or ranch to be guaranteed must be (a) a beginning farmer or rancher with at least three but not more than ten years experience in farming or ranching; (b) be the owner and operator of the farm or ranch when the contract is complete; (c) have an acceptable credit history demonstrated by satisfactory debt repayment; and (d) be unable to obtain sufficient credit elsewhere without a guarantee to finance actual needs at reasonable rates and terms. The purchase price of the farm or ranch to be acquired cannot exceed the lesser of $500,000 or the current market value. The buyer must make a down payment of 5 percent of the purchase price of the land.

PROPOSAL

The 2007 Farm Bill should make the Land Contract pilot program part of permanent law as a regular nationwide program option. The current 2-year limit on payment guarantee created by regulation should be extended to three years. Consideration should also be given to providing the land seller with an option of choosing either the 3-year payment guarantee or a standard 90 percent guarantee of the outstanding principle.

6. Conservation and Stewardship Incentives for New Farmers and Ranchers and Socially Disadvantaged Farmers and Ranchers

ISSUE

In Section 2004 of the conservation title of the 2002 Farm Bill, the Secretary of Agriculture is authorized to provide special incentives to beginning farmers and ranchers and limited resource producers to participate in federal agricultural conservation programs. This provision has resulted in several limited offerings by NRCS through farm bill conservation programs, including a funding set-aside under the Conservation Innovation Grants program and ranking points for transition planning under the Farm and Ranch Land Protection Program.

The last farm bill also established a 15 percent cost-share differential or bonus for beginning farmers and ranchers and limited resource farmers in the Conservation Security Program (CSP) and the Environmental Quality Incentives Program (EQIP).

The intent of these provisions is to help achieve two important public policy goals: help get new farmers and ranchers get started and encouraging them from the outset to adopt whole farm conservation plans and strong conservation systems. Adoption of sustainable systems is often far easier at the beginning of an operation's history than later on once a system is in place and then needs to be changed or retrofitted.

PROPOSAL

The 2007 Farm Bill should continue and strengthen the cost share differential for beginning farmers and ranchers in Environmental Quality Incentive Program (EQIP) and Conservation Security Program (CSP) by clarifying that the cost share rate for beginning farmers and ranchers must be at least 15 percent greater than the underlying regular rate for a particular practice, and should in general be set at the 90 percent rate. The same cost share differential should also apply to socially disadvantaged farmers.

The 2007 Bill should also continue, but strengthen the general special incentives authority. The new bill should direct USDA to:

- Provide strong whole farm, total resource management conservation planning assistance through the establishment of dedicated funding for the development of cooperative agreements between NRCS, Extension, non-governmental organizations, and private technical service providers with appropriate expertise in addressing the needs of new and socially disadvantaged farmers and ranchers.

- As part of this conservation planning assistance effort, include technical assistance and training specifically on sustainable agricultural farming practices and systems that maximize the use of on-farm biological resources, the application of skilled management and labor by the operator, and soil-building, resource-conserving production techniques.

- Offer a financial incentive or bonus for beginning and socially disadvantaged farmers and ranchers to develop whole farm/ranch resource management system conservation plans as part of their participation in CSP or EQIP.

- Provide a substantial number of ranking points for beginning and socially disadvantaged farmers and ranchers within each and every farm bill conservation program that uses ranking systems to determine enrollment.

- Create an incentive to encourage landowners to rent to beginning and socially disadvantaged farmers and ranchers on a long-term, multiyear basis in connection with adoption and maintenance of conservation structures and management practices and systems through CSP, Grassland Reserve Program (GRP), or any other programs featuring long-term conservation contracts.

- Continue to encourage farmland preservation initiatives that ensure continuity of use as working farmland through advance transition planning.

The Conservation Reserve Program (CRP) should also be part of the conservation package. Not all CRP contract holders will attempt to renew or extend their contracts. For CRP land with good potential for returning to production using sustainable grazing practices or fully compliant conservation cropping systems, USDA should provide for special arrangements between existing owners and beginning farmers and ranchers. Incentives for sales to beginning farmers and ranchers should include a special transition period several years prior to the end of the CRP contract during which the beginner could start making conservation and land improvements. In the final two years of the contract, leasing to the beginning farmer could begin, while the CRP rental payments to the contract holder would continue for the length of the original term, serving as an incentive to work with the beginner rather than to simply rent or sell the land to the highest bidder. This would secure a dual public purpose – preserving much of the conservation value while fostering new farming opportunities.

7. Targeted Risk Management Education for Beginning and New Farmers

ISSUE

In implementing its risk management education and partnership programs, the Risk Management Agency (RMA) and the Cooperative State Research, Education, and Extension Service (CSREES) have begun to fund projects aimed specifically at beginning, immigrant and other new farmers. These efforts should be continued and accelerated. The Federal Crop Insurance Act (FCIA) specifically authorizes an ongoing education program managed by RMA and an ongoing partnership program for risk management education managed by CSREES. Both programs receive $5 million a year in mandatory funds. Risk management education in both cases includes a focus not only on risk management products (crop insurance, futures, options, forward contracts, etc.) but also on crop and enterprise diversification, natural resource and environmental planning, accessing new and value-added markets, debt reduction and asset-building strategies, and other methods to manage risk.

These important tools need to reach new entrants into farming as they get started, and the tools themselves need to be adapted or expanded to meet the specific needs of new farmers.

PROPOSAL

The 2007 Farm Bill should amend the Federal Crop Insurance Act to include within the existing risk management education and partnerships programs a special emphasis on risk management strategies and education and outreach specifically targeted at beginning farmers and ranchers, immigrant farmers and ranchers who are attempting to become established producers in this country, farmers and ranchers who are preparing to retire and are using transition strategies to help new farmers and ranchers get started, and new and established farmers and ranchers who are converting their production and marketing systems to pursue new markets. In addition, language should provide for an emphasis on modifying or adapting the actual risk management tools to the unique needs of beginning and socially disadvantaged farmers and ranchers.

8. Dedicated Research Funding for a New Generation of Farmers and Ranchers

ISSUE

Very little federal research funding currently is dedicated to new farming opportunities, farm transfer and succession, farm transition, and entry, or new farm-oriented production, conservation, marketing, value-added, or viability issues, including new farmers from socially disadvantaged groups. In relation to the upcoming transfer of some 400 million acres of land over the next two decades, the funding for research and extension on these issues seems paltry indeed. The emerging generation of farmers includes both people with farm backgrounds and those without. Of those without farm backgrounds, many are coming to farming as a second or third career change. They are ethnically and culturally diverse and interested in a wide-range of crop and livestock systems. Many of these new farmers do not have the same family or community connections that have served to launch previous generations of farmers. There is a large need for research on and development and diffusion of models for new farmer training, land transition, making rental land accessible as an entry option, lower risk production start-up options, and alternative financing throughout the nation for an increasingly diverse new generation of farmers and ranchers.

PROPOSAL

The 2007 Farm Bill should include language in the research title making farm transfer and farm entry issues and the needs of beginning, immigrant, and socially disadvantaged farmers and ranchers, a priority research area. The new farm bill should also incorporate specific language designating a new national program area for these issues within the national competitive grants program.